

Issue Brief – State Building Energy Efficiency Program

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SUMMARY

The State Building Energy Efficiency Program (SBEEP) promotes energy savings and efficiency in state buildings. In FY 2006 the program was transferred from the Department of Natural Resources to the Division of Facilities, Construction, and Management and is funded out of a restricted account administered by the Governor's Office. The program is currently working on over 50 energy projects funded with \$1.5 million of General Fund for FY 2008. The Analyst recommends onetime funding of \$1.5 million for FY 2009 from the Stripper Wells restricted account (Petroleum Violation Escrow) for building energy projects. The Analyst further recommends that the Stripper Wells restricted account funding for two FTE, \$270,000 ongoing in FY 2009, be replaced with General Fund to maintain the SBEEP program.

DISCUSSION AND ANALYSIS

State Building Energy Efficiency Program

During the 2006 General Session the Legislature transferred responsibility over the SBEEP from the Department of Natural Resources to the Division of Facilities, Construction and Management (DFCM) through House Bill 80, *Energy Savings in State Buildings*. The SBEEP has overall responsibility for energy efficiency in state buildings by promoting energy saving programs, providing technical assistance, monitoring utility bills for opportunities for savings, and reporting to the Governor and Legislature. Efforts are not simply limited to implementing energy projects, but also focus on programs and policies intended to change employee behavior, improve building operation, and increase efficiency in new construction. One such effort is the High Performance Building Initiative which promotes integrated building design to maximize building performance and provide better air quality, lighting, and acoustics. The initiative is similar to the nationally recognized LEED™ program (Leadership in Energy and Environmental Design).

Legislative Energy Efficiency Policy

House Bill 80 (2006 G.S.) amended UCA Section 63-9-63 to read: The Legislature declares that it is the policy of the state to:

- (a) undertake aggressive programs designed to reduce energy use in state facilities in order to reduce the operating costs of state government and to set an example of energy efficiency for the public;
- (b) utilize, to the greatest practical extent, **alternative funding sources** and methods of financing energy efficiency improvements in state facilities in a manner which **minimizes the necessity for increased appropriations**;
- (c) employ private sector management incentive principles, to the extent practicable, to implement the policies of (a) and (b);
- (d) develop incentives to encourage state entities to conserve energy, reduce energy costs, and utilize renewable energy sources where practicable; and
- (e) procure and use energy efficient products where practicable.

It should therefore be noted that a key function of the SBEEP program is to look for funding sources other than the General Fund for energy projects.

Energy Projects

In FY 2008 the State Building Energy Efficiency Program received \$1.5 million of one-time General Fund for energy projects in existing state buildings. With this money, the program has completed 23 projects, has 15 more underway, and will complete 15 more by the end of the fiscal year. Over the next 15 years, the program estimates

that the benefits of this investment will equal \$7.1 million in incentives and energy savings. At a three percent discount rate, the net present value of those benefits is \$5.5 million. These energy projects include the replacement of lighting fixtures with more energy efficient products and building recommissioning, which finds opportunities to modify and tune-up building equipment and controls. In many cases, the program is able to leverage the state funds with rebates and incentives provided by utility companies to encourage energy conservation.

Funding for the SBEEP Program

Funding for the SBEEP administration comes from a restricted account set up by the Division of Finance to collect funds from the federal government which were collected in turn from oil companies for violations of petroleum pricing regulations from 1973 to 1981. These funds are known as Petroleum Violation Escrow (PVE) funds and may be used by state governments for energy related projects approved by the U.S. Department of Energy. The State set up two restricted accounts to hold these moneys – the Stripper Wells restricted account and the Exxon Oil Overcharge restricted account. The Department of Natural Resources used to administer the SBEEP and other energy-related programs previous to FY 2006 and therefore was appropriated funds out of these restricted accounts. When the SBEEP program was transferred to DFCM the Governor's Office was appropriated funds from the restricted accounts to fund a Governor's energy advisor and staff as well as to transfer funds to DFCM for the SBEEP program. The SBEEP program has therefore received funding indirectly from the PVE funds by way of the Governor's Office.

Funds in the Stripper Wells restricted account and the Exxon Oil Overcharge restricted account are slowly dissipating. These funds no longer receive PVE collections from the federal government. The Division of Finance, therefore consolidated these two restricted accounts into the Stripper Wells restricted account which, as of the end of December 2007, has a balance of \$5,139,300. Some of this money, however, has already been appropriated to the Governor's Office and, if completely spent, the remaining balance of the account at the end of FY 2008 is estimated at \$4,816,700.

Agency Request

The State Building Energy Efficiency program has requested \$5,000,000 ongoing General Fund for FY 2009 to fund energy projects for state buildings. Additionally, the program requested \$494,300 ongoing General Fund in FY 2009 to fund four FTE positions and \$21,000 onetime General Fund in FY 2009 for a vehicle.

ANALYST'S RECOMMENDATIONS

Energy efficiency is an important component of good governance. The SBEEP program has taken impressive strides towards improving the energy efficiency of the State's buildings and has used the \$1.5 million appropriation from last session to fund over 50 energy projects. The Analyst recommends that the SBEEP program continue its efforts to improve the energy efficiency of state buildings, though he also recommends that the program consider alternative methods of funding besides General Fund as directed by statute. For instance, the State of Texas used a significant portion of their PVE funds to capitalize a revolving loan program for state energy efficiency projects.

In order to maximize the value of State funds, the Analyst recommends that the Stripper Wells restricted account PVE funds be directly appropriated to the Division of Facilities, Construction and Management for State Building Energy Efficiency Program projects and not be used for personnel costs. The Analyst recommends that \$1,500,000 be appropriated onetime in FY 2009 from the PVE funds for building energy projects. The Analyst also recommends that \$270,000 be appropriated ongoing in FY 2009 from the General Fund for program costs to support two FTE. The Analyst further recommends that the Governor's Office no longer receive appropriations from this account to pay for personnel costs. Instead, the Analyst recommends that the Governor's Office receive General Fund to pay the salaries, benefits, and incidental expenses of the energy advisor and her staff. This recommendation will be made to the Executive Offices Appropriation Subcommittee.